

*[Translation]*

## **Memorandum of Understanding between the People's Bank of China and Hong Kong Monetary Authority on Strengthening Supervisory Cooperation under Bond Connect**

To strengthen supervisory cooperation between the Mainland and Hong Kong under Bond Connect, ensure effective operation and prudent risk management of the scheme, the People's Bank of China (PBC) and Hong Kong Monetary Authority (HKMA, or collectively the "Parties") have agreed to further strengthen supervisory and enforcement cooperation. The Parties have come to a consensus to enter into this Memorandum of Understanding (MoU).

### **Part I General Provisions**

#### **1. Principles and validity of the MoU**

On the basis of mutual trust and respect and in accordance with the laws of the two places and their respective statutory functions and remit, the Parties will provide each other with supervisory assistance and information sharing to the greatest possible extent.

#### **2. Purpose of the MoU**

By signing the MoU, the Parties aim to enhance the information sharing and other cooperation arrangements between the Parties, to, as far as possible, ensure transparency of information and to prevent supervisory discord, regulatory arbitrage and other related cross-boundary illegal activities. The Parties will, within their respective statutory functions and remit, use their best efforts to coordinate relevant institutions to ensure full compliance with and execution of the relevant laws and regulations of both places.

#### **3. Applicability**

The MoU complements existing supervisory cooperation between the Parties and applies to supervisory cooperation under Bond Connect. Northbound

Trading under Bond Connect will commence first (i.e. overseas investors trading Mainland China bonds). As more time is required for technical preparations, Southbound Trading (i.e. Mainland Chinese investors trading overseas bonds) will commence in the next phase. When Southbound Trading under Bond Connect commences, the Parties may suitably supplement the MoU as necessary.

## **Part II Basic Principles of Mutual Market Access**

### **4. Market access**

The Parties will ensure, as far as possible, that investors subject to their supervision should satisfy the prevailing access requirements when entering the market of the other party.

### **5. Management of custodian accounts**

The Parties should, within their respective statutory functions and remit, oversee the custodian institutions to ensure effective segregation of proprietary assets from client assets held in the nominee accounts. Clients have the ownership of the assets held on their behalf in the nominee account.

### **6. See-through supervisory arrangements**

The Parties should strengthen the reporting obligations of relevant custodian institutions. This includes secondary custodian institutions providing, at day-end, information on end investors, custody and cross-border fund remittance, etc in order to ensure, as far as possible, the completeness of data collection and effectiveness of supervisory information, as well as to, through information exchange among the relevant financial infrastructure institutions, enable regulatory authorities to access timely, accurate and comprehensive information on trading, holdings and settlement status, etc. of end investors.

### **7. Settlement and clearing arrangements**

Settlement is conducted on a delivery versus payment (DvP) basis. Settlement in central bank money should be implemented as far as possible. Transfers

can be effected through multiple levels, commensurate with the custodian arrangement.

## **8. Currency conversion**

The Parties should strengthen supervisory cooperation, and implement currency conversion, settlement and other relevant arrangements under Bond Connect. The Parties should prevent illegal foreign exchange arbitrage and other illegal activities under Northbound Trading, and ensure stable and orderly cross-boundary fund settlements under Bond Connect.

### **Part III Information Exchange**

## **9. Information compilation**

The Parties should establish an arrangement for regular sharing of data on Bond Connect operations.

## **10. Exchange of information**

The Parties should establish a mechanism for information collection and reporting and should meet the other party's request for information for supervisory purposes as far as possible. When one party initiates an investigation into illegal activities under Bond Connect, it should notify the other party.

### **Part IV Use of Information**

## **11. Scope of use**

The Parties should use non-public information and documents according to the purposes stated in their request for assistance as far as possible.

If one party intends to use information obtained from the other party for other purposes, it must obtain the other party's consent. The Parties should as far as

possible, facilitate and support one party's use of information provided by the other party.

## **12. Confidentiality of information**

Information obtained through request by one party to the other must only be used for the purposes stated at the time of request. The Parties should ensure all relevant information is kept confidential.

## **Part V Resolution**

### **13. Resolution arrangements**

The Parties consider that in case of bond default or bond issuers' failure to fulfil the terms of contracts, the rights and protection of the bond holders should be handled in accordance with the laws of the jurisdiction specified in the relevant contracts of the bonds.

## **Part VI Southbound Trading**

### **14. Commencement of Southbound Trading**

The Parties agree to actively study introducing Southbound Trading after the initial phase of Bond Connect is launched, in order to enable eligible Mainland investors to invest in the Hong Kong bond market as early as possible.

## **Part VII Execution Assistance**

### **15. Execution cooperation**

The Parties consider that execution cooperation under Bond Connect should be strengthened in accordance with the laws of the two places and the respective statutory remit of each party. Information about illegal activities discovered should be passed to the relevant authorities timely to strengthen cooperation to combat cross-boundary illegal activities.

## **16. Supervisory assistance by operating institutions**

The Parties will evaluate relevant registration and custodian institutions on the basis of relevant principles in the Principles for Financial Market Infrastructures (PFMI). The Parties should also, within their statutory functions and remit, ensure that other operating institutions and institutions providing sub-custodian services under Bond Connect are subject to necessary supervision regulated and fulfil their frontline supervisory obligations, including data compilation and onward reporting, etc.

## **Part VIII Others**

### **17. Investor protection**

The Parties should, as far as possible, ensure that Bond Connect investors are protected by the relevant laws of the place where trading and settlement takes place.

### **18. Coordination in publication of information**

The Parties should sufficiently communicate before publishing media releases and other related matters under Bond Connect to ensure that the contents and timing of media releases are consistent.

### **19. Liaison and consultation mechanism**

The Parties will hold liaison meetings regularly to discuss the operation and supervision of Bond Connect, as well as issues of mutual concern and interest to facilitate the execution of the MoU and resolve issues that may arise.

### **20. Contact persons**

The Parties should designate contact persons for such matters as arranging liaison meetings, media releases, making requests for assistance or information reporting, etc.

The Parties should notify each other in writing if there is any change to the contact persons.

21. This MoU is only an indication of intent and does not intend to create any legally binding obligations on either party.

## **22. Commencement**

This MoU shall take effect as it is signed by the People's Bank of China and Hong Kong Monetary Authority on 30 June 2017.

People's Bank of China

Hong Kong Monetary Authority

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Zhou Xiaochuan  
Governor

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Norman T.L. Chan  
Chief Executive